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"Going global" and FDI inflows in China: "One Belt & One Road" initiative as a quasi-natural experiment

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KEYWORDS

foreign capital utilisation, "One Belt & One Road", resource competition, signal delivering

1 | INTRODUCTION

Since the beginning of reform and opening-up in 1978, China's economic development has made great progress by attracting foreign investment. The inflow of foreign capital has lessened capital shortage, created new jobs and promoted technological progress through knowledge and technology spillovers. However, after decades of rapid economic growth, China's investment environment has changed. To the advantage of foreign investment, barriers to market entry have gradually been relaxed. More and more areas have implemented the management model of pre-establishment national treatment and negative list. Against this, labour costs are rising, domestic capital has gradually accumulated, and super-national treatment for foreign capital is gradually being phased out.

More importantly, after actively utilising foreign capital for many years, the Chinese government began to encourage enterprises to expand their overseas presence. At the third session of the ninth National People's Congress in 2000, China put forward the "going global" strategy. After more than 10 years of development, this strategy has recently made new progress—the construction of "One Belt & One Road" (OBOR). In 2013, during visits to Central and Southeast Asian countries, the Chinese leader proposed jointly building the Silk Road Economic Belt and the 21st Century Maritime Silk Road. In the third Plenary Session of the 18th CPC Central Committee, OBOR was set as a national initiative. The strategy of "going global" has promoted rapid growth of China's outward direct investment, which increased from US$2.9 billion in 2003 to US$146 billion in 2015. In 2015, China surpassed Japan to become the second largest foreign investor in the world, and the flow of outward direct investment exceeded the flow of inward direct investment, resulting in a net export of capital. In the same year, China's investment in the countries along one belt and one road reached US$19 billion, representing 13% of China's total outward direct investment, with year-on-year rises of 38.6%, twice of that of global investment growth.

According to traditional FDI theory, capital inflows and outflows are closely related to the stage of economic development. In the early stage of development, a country takes FDI as an important driving force for the development of economy. After reaching a certain stage, some enterprises with high productivity begin to go global. When reaching an even higher level of development, both inward direct investment and outward direct investment reach a relatively high level. Now, the situation in China is that "bringing in" foreign investment is more driven by market forces, while "going global" is more motivated by the government. Some of the "going global" enterprises do not comply with the productivity hypothesis, especially the state-owned enterprises. Carrying the government's will, their behaviour of outward investment is not entirely market-oriented. In this context, it is in the impact of policy-driven "going global" on market-driven "bringing in" that we are mainly interested.

Policymakers hope that "bringing in" and "going global" can interact positively and reinforce each other; however, empirical observation deviates from this. Evidence shows that while the pace of "going global" is increasingly faster, "bringing in" is slowing down, and the phenomenon of foreign investment withdrawal is becoming more serious. Figure 1 shows the trend of average FDI inflow at provincial level from 2003 to 2015. The growth rate remained basically unchanged until 2012, and then experienced a gradual slowdown, even recording negative growth in 2015. Figure 2 shows that FDI outflow (as a quantitative indicator of "going global") increased after 2008 and accelerated its growth since 2013. These facts are not in accordance with the original intention of positive interaction. If "going global" and "bringing in" cannot achieve benign interaction, what effects does the former have on the latter? The existing literature rarely discusses this. To fill this void, this paper uses data at the provincial level in China, takes the "One Belt & One Road" initiative as a policy shock and adopts difference-in-differences strategy to investigate the influence of "going global" on "bringing in."

Our contribution lies mainly in four aspects. First, it deepens our understanding of the dynamics of foreign capital inflows. Most of the existing FDI literature focuses on variables of the gravity model as well as institutional and cultural distance, while we explore the impact of OBOR as a policy shock. Second, we give a new perspective on its economic effects. Different from most of the existing literature that investigates the initiative's effects on outward direct investment and export, this paper examines its impact on foreign capital utilisation. Third, our difference-in-differences strategy identifies the impact of OBOR construction on foreign capital utilisation. We construct two differences, the first is whether a province is an OBOR province in spatial dimension; the second is whether the initiative has

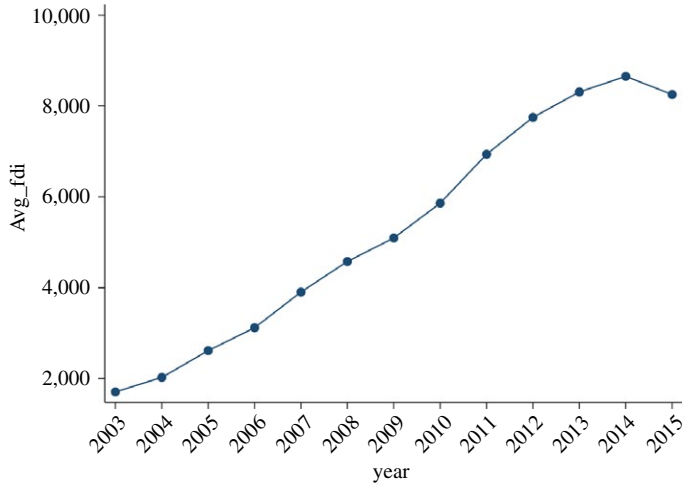

FIGURE 1 Average FDI inflow at provincial level in 2003–15 (Unit: million US$)

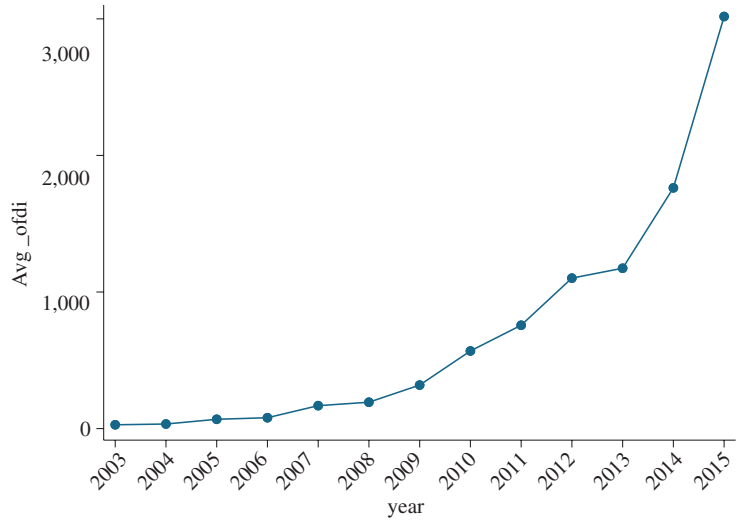

FIGURE 2 Average FDI outflow at provincial level in 2003–15 (Unit: million US$)

been proposed in time dimension. Our regressor of interest is the interaction term of these two dummy variables. Finally, the mechanism of how OBOR affects the utilisation of foreign capital is analysed. Starting from the two channels of "signal delivering" and "resource competition," we have discussed theoretically the influence of "One Belt & One Road" construction on FDI inflows. In the empirical study, by including traditional quantifiable "going global" indicators such as outward FDI, it is revealed that the impact of OBOR is beyond the impact of outward FDI. In addition, the influence of economic development stage, fiscal burden and degree of marketisation on the magnitude of the impact of OBOR is investigated, and the transmission mechanism of the effects has been exposed preliminarily.

The rest of the paper is structured as follows. Section 2 reviews the literature on foreign capital utilisation as well as "One Belt & One Road" and makes brief remarks on them. Section 3 is a theoretical discussion about how "One Belt & One Road" as an exogenous policy shock affects FDI inflows and an introduction to the empirical strategy of how to identify these effects. Section 4 introduces data sources and variables. Section 5 presents baseline estimation results and conducts parallel trend assumption test as well as a placebo test. Section 6 conducts robustness checks and extended analyses. The final section concludes and gives policy implications.

2 | LITERATURE REVIEW

There are three strands of literature relevant to this paper: the causes of capital inflows; the consequences of capital outflows; and interactions between capital inflow and capital outflow.

2.1 | Causes of capital inflows

Major determinants of capital inflows include market demand (Chakrabarti, 2001; Chantasasawat, Fung, Iizaka, & Siu 2010), human capital (Goldberg, Heinkel, & Maurice, 2005; Noorbakhsh, Paloni, & Youssef, 2001), financial development (Desbordes & Wei, 2017), intellectual property rights protection (Javorcik, 2004a; Lee & Mansfield, 1996), government efficiency and corruption (Buchanan, Le, & Rishi, 2012; Wei, 2000), and policy incentives (Gorg & Greenaway, 2004; Harding & Javorcik,

2011). Papers on the determinants of FDI inflow in China are also abundant. Factors which regarded as important are market demand (Amiti & Javorcik, 2008), agglomeration and other spatial effects (Amiti & Javorcik, 2008; Chen, 2009), infrastructure (Cheng & Kwan, 2000), labour cost (Xian & Xu, 2013), human capital (Salike, 2016), fiscal decentralisation (Wang, 2013a,b), geographical and cultural linkages (Gao, 2005; Whalley and Xin, 2010), intellectual property rights protection and institutional factors (Du, Lu, & Tao, 2008), special economic zones and other policy stimulus (Huang & Tang, 2012; Wang, 2013a, 2013b).

Some papers have carried out comprehensive empirical analyses of determinants. Blonigen and Piger (2014) point out that the literature has not yet reached a consensus on this. They find that the significant factors affecting FDI include traditional gravity model variables, cultural distance, relative labour endowment and regional trade agreements, while less significant factors include trade openness, the cost of doing business, infrastructure and institutional distance. Khachoo and Khan (2012) use data for 32 developing countries from 1982 to 2008 to identify the long-term factors affecting FDI in developing countries. They show market size, foreign exchange reserves, infrastructure and labour cost are the main determinants. In China's context, Cheng and Kwan (2000) use data of 29 provinces from 1985 to 1995, finding that market size, infrastructure, labour cost and policy stimulus all affect inflow, while education has a positive, but not significant, impact.

There is no discussion in the existing literature of how "going global" affects "bringing in," nor the impact of OBOR as a policy shock.

2.2 | Consequences of capital outflows

Existing literature has examined how capital outflow affects domestic investment (Desai, Foley, & Hines, 2009), income gap (Herzer & Nunnenkamp, 2013), output (Hijzen, Tomohiko, & Yasuyuki, 2007), wages and employment (Desai et al., 2009; Hijzen et al., 2007), productivity and reverse technology spillover (Branstetter, 2006; Driffield & Chiang, 2009), industrial upgrading (Cantwell & Tolentino, 1990) and international trade (Markusen & Svensson, 1985).[1]

Desai et al. (2009) and Al-Sadiq (2013) are directly related to this paper. The former is based on data of American multinational enterprises from 1982 to 2004 and shows that when multinational enterprises' foreign investment increases by 10%, their domestic investment increases by 2.6%. When the wages of the employees abroad increase by 10%, the wages of the employees at home increase by 3.7%. Al-Sadiq (2013) uses data of 121 developing countries from 1990 to 2010, finding that ODI has a significantly negative impact on domestic investment. They believe two mechanisms are at work. One is the impact on financial resources of the home country, and the other is the impact on the production of the home country. With respect to the latter, efficiency seeking, market seeking and strategic asset seeking play an important role. Under the first motive, ODI is likely to promote domestic investment through intermediate goods export. The effect under the second motive depends on whether ODI substitutes exports. As for the last motive, ODI is likely to increase domestic investment. The acquisition of strategic assets can help enterprises in the home country to improve productivity.

With regard to China, the existing literature mainly discusses how ODI affects domestic employment (Li, Bai, & Xian, 2016), productivity (Jiang & Jiang, 2014a; Jiang, Jiang, & Jiang, 2013), technology spillover and innovation (Mao & Xu, 2014) and international trade (Jiang & Jiang, 2014b). OBOR has received little attention.

[1]There is also a great deal of the literature about how capital inflow affects the host countries. See, for example, Javorcik (2004b), Gorg and Greenaway (2004), Godart, Gorg, and Greenaway (2013), Greenaway, Guariglia, and Yu (2014).

2.3 | Interactions between capital inflows and outflows

Gu and Lu (2011) using global data on venture capital from 1985 to 2007 find that M&A type of FDI has positive spillover effects on ODI, while greenfield FDI has negative market competition effects. Li, Li, and Shapiro (2012) use China's ODI data from 1990 to 2009 and find that the higher is FDI, the lower the ODI of an industry. This is because the technology spillover of FDI reduces the incentive to acquire technology by means of ODI. Yao, Wang, Zhang, and Ou (2016) study the relationship between ODI stocks of China in 172 countries and FDI stocks of these countries in China from 2003 to 2009, finding that FDI stocks have a significant positive impact on ODI.

3 | THEORETICAL CONSIDERATIONS AND IDENTIFICATION STRATEGY

3.1 | Theoretical considerations

As an upgrade to the going global strategy, OBOR is likely to be regarded as a signal by foreign investors that in the government's agenda, the priority of "bringing in" might give way to "going global." In the early years, due to capital scarcity, policies are mainly aimed at "bringing in" with governments at all levels trying their best to attract foreign investment. As the economy develops, domestic capital accumulates, and preferential policies for foreign investment are phased out. OBOR has a relatively clear area scope at home and abroad. Certain provinces are designated as OBOR provinces. If the signal delivering mechanism makes sense, it suggests that with the acceleration of "going global," the pace of "bringing in" may slow down. In addition, both OBOR construction and FDI promotion need resources, so there may be a trade-off between them. The meaning of resources here is broad, including fiscal, financial, land, time and human resources. Taking fiscal resources as an example, to attract investment, government needs to invest to pave roads, access water and electricity and so on. One Belt & One Road construction may therefore divert resources from "bringing in." The same logic applies to human capital and other resources.

Other factors may also have a bearing. First, we believe the impact depends on the stage of economic development. China is a country where unbalanced regional development exists. In provinces with high levels of economic development, the signal delivering role of OBOR is not that critical, as in these provinces, the degree of information asymmetry is low, and foreign investors can decide whether to invest or not based on the business environment. However, in provinces where levels of economic development are low, the degree of information asymmetry is much higher. Foreign investors may take the information contained in the OBOR initiative seriously and regard it as a signal of changes in government preferences. There is similar reasoning for the resource competition channel. In areas with high levels of economic development, fiscal and financial resources are less constrained. Even if OBOR construction is resource hungry, it does not necessarily mean a diversion of resources for "bringing in." By contrast, in less developed areas, resources are scarce and diversion is more likely. We can expect similar trade-offs for human and other resources. Overall, we expect that the negative impact of One Belt & One Road initiative on the "bringing in" will be strongly reflected in OBOR provinces with low levels of economic development.

Second, we believe the impact also depends on the fiscal burden. Compared with other resources, fiscal resources are more measurable, available and comparable. We use the ratio of fiscal expenditure to fiscal revenue to measure the fiscal burden of a province. The higher this ratio, the heavier the fiscal burden. Given potential resource competition between "going global" and "bringing in," we expect that in areas where the fiscal burdens are relatively heavy, One Belt & One Road construction will have a greater impact on the "bringing in."

Third, we believe the impact also depends on the degree of marketisation. It is hard to directly test the signal delivering hypothesis. In provinces with high degrees of marketisation, information asymmetry is less serious. The signal delivering role of OBOR will be weakened, and its construction may not cause a great impact on "bringing in." However, in provinces with low degrees of marketisation, the signal delivering role is more crucial, and the construction of OBOR may have a greater impact on the "bringing in." In China, the proportion of state-owned enterprises (SOEs) is an important indicator of marketisation. It also has another economic meaning that in provinces with high proportions of state-owned economy, SOEs will have more weight in the government's objective function. In the short term, SOEs play a more important role in OBOR construction because of the government's will. Therefore, we expect that in provinces with high proportions of state-owned enterprises, the construction of OBOR will have a greater impact on "bringing in."

3.2 | Identification strategy

We use China's provincial-level data for the years 2003–15 and devise a difference-in-differences (DID) strategy to examine the causal impact of OBOR construction on foreign capital utilisation. Using the historical symbolism of the ancient Silk Roads, OBOR aims to reconstruct and deepen economic ties between China and the countries along the belt and road. In contrast to non-OBOR provinces, OBOR provinces have a greater obligation to implement the initiative.

There are huge differences in levels of economic development among OBOR provinces. For example, Shanghai, Zhejiang, Guangdong and Fujian are relatively well developed, while Guangxi, Yunnan, Shaanxi, Gansu and Ningxia are less so. Nevertheless, they share a common geographical feature and are part of the Silk Road Economic Belt and Maritime Silk Road in China. By constructing double differences spatially and temporally, we can control all province level factors that do not change over time, such as the influence of geographical location and political characteristics, and can capture all-time level factors that do not change across provinces at a given time, such as the impact of macro policy shocks. This helps us deal with endogeneity.

To this end, we treat OBOR as a quasi-natural experiment. In particular, the first difference is whether a province is an OBOR province, and the second is before and after the initiative has been proposed, and our regressor of interest is the interaction term between the province dummy and the time dummy:

$$FDI_{pt} = \beta_0 + \beta_1\, Zhongdian_p * OBOR_t + X'_{pt}\varphi + \mu_p + \gamma_t + \varepsilon_{pt}, \tag{1}$$

In Equation (1), FDI_{pt} represents the FDI inflow of province p in year t. $Zhongdian_p$ is a dummy variable indicating whether province p is an OBOR province. If yes, it takes 1, otherwise, 0. OBOR is a dummy variable indicating whether One Belt & One Road initiative has been proposed. It takes 1 in 2013 and in later years, otherwise takes 0. X is a series of control variables, including GDP per capita, population size, GDP growth rate and so on. The u_p is the provincial fixed effect, the γ_t is the year effect, and the ε_{pt} is the error term.

The coefficient β_1 is our major concern, measuring how foreign capital utilisation of OBOR provinces has changed compared to non-OBOR provinces. As a quasi-natural experiment, the ideal situation is that the choice of OBOR provinces is random or exogenous. For this purpose, we conduct two tests, the parallel trend assumption test and placebo test. Difference-in-differences requires a similar long-term trend between the treatment and control groups before the policy shock occurs. We conduct the parallel trend assumption test to check whether the development trend of FDI in OBOR provinces and non-OBOR provinces is the same. We next conduct a placebo test to demonstrate the unobserved factors do not lead to biased estimation results by randomly generating OBOR provinces.

TABLE 1 Descriptive statistics

Variables	Meaning	Obs.	Mean	*SD*	Min	Max
lnfdi	Actually utilised FDI inflow, log value	329	7.802	1.645	3.017	10.480
lnofdi	Non-financial FDI outflow, log value	328	5.213	2.140	−2.813	10.050
lnocp	Number of overseas contracted projects, log value	318	4.204	1.702	0	8.512
lnols	Number of overseas labour services, log value	302	8.598	1.963	2.485	11.350
Zhongdian	Whether a province is an OBOR province	330	0.567	0.496	0	1
OBOR	Whether OBOR initiative has been proposed	330	0.273	0.446	0	1
fiscal	Fiscal expenditure/fiscal revenue	330	2.224	0.939	1.052	6.745
SOE	The proportion of SOE fixed asset investment	330	0.311	0.102	0.114	0.581
lngdppc	GDP per capita, log value, 1999 as the base year	330	9.857	0.544	8.350	11.020
lnpop	Population size, log value	330	8.165	0.750	6.297	9.292
gdpg	Growth rate of GDP	330	11.630	2.769	3	23.800
lntrade	Total trade, log value	330	14.860	1.639	10.800	18.670
lnhighway	Total lengthen of highways/land area, log value	330	−0.473	0.814	−3.191	0.733
lnwage	Average wage level, log value, 1999 as the base year	330	10.010	0.338	9.346	11.05
lnhcapital	Number of high school and college students, log value	330	4.805	0.763	2.590	5.975
industry	The proportion of industry in GDP	330	0.408	0.0801	0.131	0.565
lncofdi	Non-financial FDI outflow of central-owned enterprises, log value	330	14.960	0.524	13.840	15.54
harbour	Whether a province has a port above a certain scale	330	0.200	0.401	0	1

4 | DATA AND DESCRIPTIVE STATISTICS

We rely on macro data at the provincial level. FDI inflows in 2003–15 in each province are the explained variable. The interaction term of two dummy variables is the core explanatory variable. As noted above, one dummy variable is whether a province is an OBOR province and the other is the timing of the initiative. The control variables include market size (population size), level of economic development (GDP per capita), market prospect (GDP growth rate), infrastructure (highway length per unit area), human capital (number of students in high schools and universities), industrial structure

TABLE 2 Baseline estimation results

Explained variable: *lnfdi*				
	(1)	(2)	(3)	(4)
Explanatory variable	OLS	Provincial FE	Year FE	Two-way FE
Zhongdian	−1.110**		−1.107**	
	(0.533)		(0.540)	
OBOR	1.231***	1.231***		
	(0.164)	(0.164)		
*Zhongdian*OBOR*	−0.467*	−0.367+	−0.470*	−0.369+
	(0.232)	(0.229)	(0.235)	(0.233)
Cons.	7.902***	7.251***	6.833***	6.125***
	(0.326)	(0.027)	(0.372)	(0.117)
Obs.	397	397	397	397
R^2	0.160	0.271	0.253	0.709
Groups		31		31

Notes. The standard errors of all regressions in this paper have been clustered at the provincial level.
The values in the brackets are robust standard errors; ***, **, * and + denote significance levels of 1%, 5%, 10% and 15%, respectively.

(ratio of industry over GDP), openness (total trade volume and a dummy with or without a port above a certain scale), marketisation (proportion of state-owned enterprises), fiscal burden (ratio of fiscal expenditure over fiscal revenue) and ODI of the central government-owned enterprises.[2]

FDI data are from the CEIC database. The information on OBOR and non-OBOR provinces is from *Vision and Actions on Jointly Building Silk Road Economic Belt and 21st Century Maritime Silk Road* jointed issued by the NDRC, the Ministry of Foreign Affairs and Ministry of Commerce.[3] ODI data are from the annual *Statistical Bulletin of China's Outward Foreign Direct Investment*. Data about overseas contracted projects and overseas labour services are from the Ministry of Commerce. The data of other variables are from the *China Statistical Yearbook*. Table 1 presents the descriptive statistics for all variables.

5 | BASELINE ESTIMATION AND RELATED TESTS

5.1 | Baseline estimation

Table 2 reports estimation results of difference-in-differences without other control variables.[4] Column (1) reports the results with basic variables included in the model. The coefficient of the interaction term is negative and significant. Columns (2)–(4) control for province, year and two-way fixed effects. The estimated coefficients of the interaction terms are still negative and only significant at the

[2]Ports above a certain scale are those with the top 10 cargo throughput from 2003 to 2015. Specifically, Zhejiang, Tianjin, Shanghai, Guangdong, Liaoning and Shandong take 1 and other provinces take 0.

[3]There are 18 OBOR provinces including Inner Mongolia, Shaanxi, Gansu, Ningxia, Qinghai, Xinjiang, Liaoning, Jilin, Heilongjiang, Guangxi, Chongqing, Yunnan, Tibet, Shanghai, Zhejiang, Fujian, Guangdong and Hainan.

[4]The estimation results of control variables are omitted in the text. They are available upon request. The same applies for the remaining tables of estimation results.

TABLE 3 Estimation results: regional control variables included

Explained variable: lnfdi					
Explanatory variables	**(1)** **OLS**	**(2)** **OLS**	**(3)** **Provincial FE**	**(4)** **Year FE**	**(5)** **Two-way FE**
Zhongdian		−0.116		−0.113	
		(0.199)		(0.205)	
OBOR		0.428***	0.175		
		(0.155)	(0.132)		
Zhongdian × *OBOR*		−0.330^{+}	−0.411**	−0.322	−0.413**
		(0.219)	(0.192)	(0.223)	(0.185)
Contrl	Yes	Yes	Yes	Yes	Yes
Cons.	−14.56***	−13.26***	−6.180	−15.73***	−5.947
	(4.451)	(4.511)	(9.176)	(4.942)	(12.26)
Obs.	397	397	397	397	397
R^2	0.864	0.868	0.766	0.872	0.771
Number of provinces			31		31

Notes. The values in the brackets are robust standard errors; ***, **, * and + denote significance levels of 1%, 5%, 10% and 15%, respectively.

level of 15% or above. This means that, compared with non-OBOR provinces, FDI inflow of OBOR provinces tends to decline after One Belt & One Road initiative has been proposed. Taking the estimation results of Column (4) as an example, after OBOR was initiated, FDI inflows of OBOR provinces decreased by 37% compared to non-OBOR provinces. However, the significance level of the estimated coefficient of the interaction term is only 15%.

Table 3 reports the results of difference-in-differences estimation with other characteristics of provinces included in the model. Column (1) is the estimation results with only other characteristics of provinces being controlled. The estimated coefficients of most variables are in accordance with expectations. Columns (2)–(5) add variables related to difference-in-differences strategy, and control for province, year and two-way fixed effects in turn. The estimated coefficients of the interaction term are negative and significant at 15% and 5%, while the signs and significance of the estimated coefficients of control variables are unstable. From these, we conclude that OBOR has indeed reduced FDI inflows. According to the estimated coefficients of Column (5), our preferred model specification, FDI inflow of OBOR provinces decreased by 41% compared with non-OBOR provinces after OBOR was proposed.

5.2 | Parallel trend assumption test

One requirement of applying a difference-in-differences strategy is that the treatment and control groups have similar long-term trends before the policy shock. To check this, we conduct a parallel trend test (Lu, Tao, & Zhu, 2017; Moser & Voena, 2012). Specifically, we regress FDI on all control variables and take average residuals for OBOR and non-OBOR provinces, respectively. These represent the conditional average FDI inflows of the two groups of provinces after all control variables have been included. Figure 3 shows the trend of the residuals of the two groups in different years. Both are relatively stable before OBOR was initiated in 2013, and there is no significant difference.

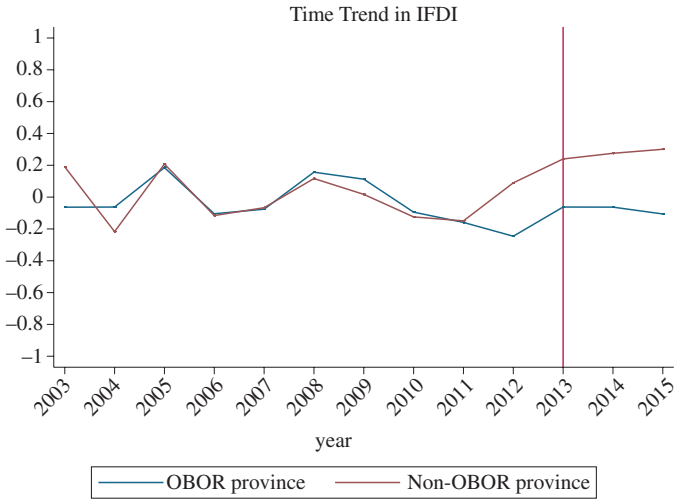

FIGURE 3 Test for pretrend: FDI inflows in OBOR and non-OBOR provinces

This test is vital for our identification assumption and reassures us that it is appropriate to deploy a difference-in-differences strategy. The FDI inflow of OBOR provinces is obviously lower than that of non-OBOR provinces after OBOR, indicating that it may produce negative impact on the FDI inflow in OBOR provinces.

5.3 | Placebo test

Another concern about difference-in-differences estimation is the impact of other unobservable but time-variant factors. Although province fixed effects are added to control the impact of provincial characteristics that do not change over time, some may change over time, thus affecting the satisfaction of identification assumption. While we are unable to include all possible unobservables, to address this concern, we conduct an indirect placebo test, which has been widely used in the literature (Chetty, Looney, & Kroft, 2009; Ferrara, Chong, & Duryea, 2012). First, we derive the expression for the estimated coefficient β_1 by Equation (2):

$$\hat{\beta}_1 = \beta_1 + \vartheta \times \frac{\mathrm{cov}(Zhongdian_p \times OBOR_t, \varepsilon_{pt} | W)}{\mathrm{cov}(Zhongdian_p \times OBOR_t | W)}, \tag{2}$$

W includes all control variables and fixed effects. If $\vartheta = 0$, unobservable factors will not affect the estimation results, that is to say, it suggests β_1 is unbiased, but it cannot directly prove this. For this reason, we adopt an indirect test. We randomly generate 18 OBOR provinces ($Zhongdian_p^{random}$) and construct a new interaction term $Zhongdian_p^{random} * OBOR_t$. This variable should not affect the explained variable. $\hat{\beta}_1$ should be 0, if not, the result is biased. To this end, we randomly generate 18 OBOR provinces to construct a new treatment group. By doing so, we get a false estimated coefficient $\hat{\beta}_1^{random}$, which has been repeated 5,000 times, resulting in 5,000 $\hat{\beta}_1^{random}$. Figure 4 shows the distribution of $\hat{\beta}_1^{random}$. We can see that $\hat{\beta}_1^{random}$ is close to zero and conforms to a normal distribution. It is worth to mentioning that while this test is not strong enough to support our identification assumption, it is very suggestive.

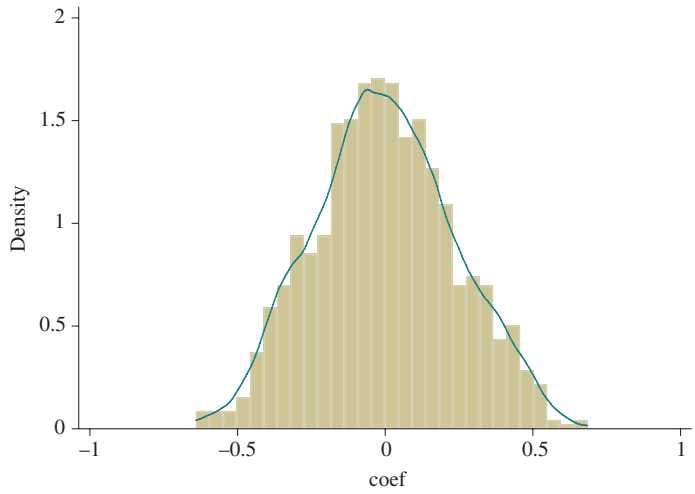

FIGURE 4 Placebo test: estimation coefficients distribution

Note. The horizontal axis represents the estimation coefficients, and the vertical axis represents the probability.

6 | ROBUSTNESS CHECKS AND EXTENDED ANALYSES

6.1 | Robustness checks

OBOR is comprehensive, involving outward direct investment, overseas contracted projects and overseas labour services, but it is not limited to them. To investigate whether the interaction term captures only the effect of these traditional quantitative indicators of "going global," or whether the interaction term captures only the effects of omitted variables, we introduce ODI, overseas contracted projects and overseas labour services in turn in our regressions. Table 4 reports the estimation results.

Results of including ODI (Go global = lnodi) are shown in columns (1)–(4) of Table 4. Column (1) is the results when ODI and other control variables are included, and column (2) considers two-way fixed effects. The coefficient of lnodi is negative but not significant. Column (3) introduces difference-in-differences variables, and column (4) further considers the two-way fixed effects. The coefficient of the interaction term is still significantly negative and that of lnodi remains unchanged. This means the impact of OBOR cannot be simply captured by outward direct investment. According to the estimated coefficients of column (4), FDI inflows in the OBOR provinces decreased by 42% compared with non-OBOR provinces.

Results of including overseas contracted projects (Go global = lnocp) in the model are shown in columns (5)–(8). Column (5) reports the results when overseas contracted projects and other control variables are included, and column (6) considers the two-way fixed effects. The estimated coefficient of lnocp is positive and significant. Column (7) introduces difference-in-differences variables, and column (8) further considers the two-way fixed effects. The coefficient of the interaction term is still significantly negative, and the coefficient of lnocp does not change much. This suggests the impact of OBOR cannot be simply captured by overseas contracted projects. According to the estimated coefficients of column (8), FDI inflows in OBOR provinces decreased by 33% compared with non-OBOR provinces.

Results of including overseas labour services (Go global = lnols) are shown in columns (9)–(12). Column (9) reports the results when overseas labour services and other control variables are included.

TABLE 4 Estimation results: traditional indicators of "going global" included

Explained variable: lnfdi												
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
	Going global = lnofdi				Going global = lnocp				Going global = lnols			
Explanatory variables	OLS	Two-way FE	OLS	Two-way FE	OLS	Two-way FE	OLS	Two-way FE	OLS	Two-way FE	OLS	Two-way FE
Going global	−0.063	−0.042	−0.053	−0.045	0.087	0.053+	0.131*	0.047	0.086	−0.088	0.105+	−0.059
	(0.062)	(0.042)	(0.062)	(0.042)	(0.059)	(0.036)	(0.067)	(0.034)	(0.065)	(0.066)	(0.064)	(0.066)
Zhongdian			−0.078				−0.0723				−0.232	
			(0.206)				(0.177)				(0.190)	
OBOR			1.050				1.871**				1.172*	
			(1.002)				(0.730)				(0.603)	
*Zhongdian*OBOR*			−0.306	−0.416**			−0.204	−0.328**			−0.308	−0.328**
			(0.227)	(0.186)			(0.179)	(0.152)			(0.215)	(0.158)
Contrl	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Cons.	−17.27***	−9.543	−12.52+	−8.146	−12.43**	−7.108	4.054	−8.184	−18.11***	−15.20	−8.491	−15.22+
	(5.565)	(13.05)	(7.495)	(11.73)	(4.969)	(12.58)	(9.771)	(11.46)	(5.228)	(11.36)	(8.921)	(9.957)
Obs.	384	384	384	384	317	317	317	317	301	301	301	301
R^2	0.853	0.754	0.861	0.765	0.874	0.722	0.887	0.735	0.866	0.732	0.877	0.744
Number of prov.		31		31		30		30		29		29

Notes. The values in the brackets are robust standard errors; ***, **, * and + denote significance levels of 1%, 5%, 10% and 15%, respectively.

TABLE 5 Estimation results: levels of economic development

Explained variable: lnfdi				
	(1)	(2)	(3)	(4)
	Larger than the median of GDP per capita		Smaller than the median of GDP per capita	
Explanatory variables	OLS	Two-way FE	OLS	Two-way FE
Zhongdian	−0.033		−0.394	
	(0.249)		(0.295)	
OBOR	0.135		0.483**	
	(0.175)		(0.187)	
*OBOR*Zhongdian*	−0.056	0.097	−0.643**	−0.539*
	(0.144)	(0.134)	(0.294)	(0.299)
Contrl	Yes	Yes	Yes	Yes
Cons	−8.185	−14.34	−12.05*	20.89
	(6.306)	(10.47)	(6.647)	(21.57)
Obs.	142	142	255	255
R^2	0.907	0.917	0.829	0.786
Number of provinces		11		20

Notes. The values in the brackets are robust standard errors; ***, **, * and + denote significance levels of 1%, 5%, 10% and 15%, respectively.

Column (10) is the estimation results considering the two-way fixed effects. The estimated coefficient of lnols is unstable. Column (11) introduces difference-in-differences variables, and column (12) further considers the two-way fixed effects. The coefficient of the interaction term is still significantly negative, and the coefficient of lnols is still unstable. According to the estimated coefficient of column (12), FDI inflows in the OBOR provinces decreased by 33% compared with the non-OBOR provinces.

From Table 4, after the introduction of ODI, overseas contracted projects and overseas labour services, the estimated coefficients of the interaction term are still significantly negative. This suggests OBOR is not only about capital, labour and projects, but also contains other information, such as the policy priority.

6.2 | Extended analyses

In this section, we analyse whether the impact of "One Belt & One Road" initiative depends on other factors. We use GDP per capita to measure the level of economic development, the ratio of fiscal expenditure over fiscal revenue to measure the fiscal burden and the proportion of state-owned fixed asset investment to measure the degree of marketisation. The median values of each province and all provinces are compared, and samples are divided into two groups, one for provinces whose median values are below the median of the whole sample and the other for those whose median values are above that of the whole sample. Tables 5–8 report results.

6.2.1 | Level of economic development

Columns (1) and (2) are the estimation results for provinces whose GDP per capita is higher than the median of the whole sample. Column (2) takes into account the two-way fixed effects. Columns (3) and (4) are estimation results for provinces whose GDP per capita is lower than the median of the whole sample. Column (4) takes into consideration the two-way fixed effects. We see that after OBOR was proposed, FDI inflows in OBOR provinces with higher development levels were not significantly affected, but FDI inflows in OBOR provinces with lower development levels were significantly negative (a decrease of 54%).

6.2.2 | East, Central and West Regions of China

Estimation results for different regions are shown in Table 6. Columns (1) and (2) are results for eastern regions, and column (2) considers the two-way fixed effects. Columns (3), (4), (5) and (6) report the results for central and western regions. From the estimated coefficients of the interaction terms, we see that FDI inflows to OBOR provinces of the eastern and central regions were not significantly affected by OBOR, while FDI inflows in the OBOR provinces of western regions were significantly negatively affected (a decrease of 79%).

6.2.3 | Fiscal burden

Estimation is shown in Table 7. Columns (1) and (2) are results for provinces whose fiscal burdens are greater than the median value of the whole sample. Column (2) takes into account the two-way fixed

TABLE 6 Estimation results: East, Central and West Regions

Explained variable: lnfdi						
	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**
	East region		**Central region**		**West region**	
Explanatory variables	**OLS**	**Two-way FE**	**OLS**	**Two-way FE**	**OLS**	**Two-way FE**
Zhongdian	−0.059		−1.371*		−0.134	
	(0.241)		(0.601)		(0.390)	
OBOR	0.168		0.215		0.858***	
	(0.149)		(0.205)		(0.238)	
*Zhongdian*OBOR*	−0.032	−0.085	−0.004	0.324	−0.939**	−0.789*
	(0.140)	(0.106)	(0.113)	(0.406)	(0.344)	(0.399)
Contrl	Yes	Yes	Yes	Yes	Yes	Yes
Cons	−11.96**	−6.572	−8.410	16.34	−29.16***	−25.62
	(3.874)	(9.669)	(6.499)	(17.34)	(4.961)	(21.91)
Obs.	143	143	103	103	151	151
R^2	0.882	0.852	0.861	0.911	0.827	0.817
Number of provinces		11		8		12

Notes. The values in the brackets are robust standard errors; ***, **, * and + denote significance levels of 1%, 5%, 10% and 15%, respectively.

TABLE 7 Estimation results: fiscal burden

Explained variable: lnfdi	(1)	(2)	(3)	(4)
	Larger than the median of fiscal burden		Smaller than the median of fiscal burden	
Explanatory variables	OLS	Two-way FE	OLS	Two-way FE
Zhongdian	−0.816**		0.315	
	(0.381)		(0.255)	
OBOR	0.465**		0.232+	
	(0.194)		(0.130)	
*Zhongdian*OBOR*	−0.537*	−0.486*	−0.299	−0.155
	(0.288)	(0.260)	(0.252)	(0.133)
Contrl	Yes	Yes	Yes	Yes
Cons	−14.48**	14.93	−13.75***	−14.02+
	(6.767)	(23.74)	(3.488)	(8.147)
Obs.	228	228	169	169
R^2	0.830	0.787	0.860	0.848
Number of provinces		18		13

Notes. The values in the brackets are robust standard errors; ***, **, * and + denote significance levels of 1%, 5%, 10% and 15%, respectively.

TABLE 8 Estimation results: degree of marketisation

Explained variable: lnfdi	(1)	(2)	(3)	(4)
	Larger than the median of the proportion of SOE economy		Smaller than the median of the proportion of SOE economy	
Explanatory variables	OLS	Two-way FE	OLS	Two-way FE
Zhongdian	−0.149		−0.004	
	(0.223)		(0.317)	
OBOR	0.472*		0.434***	
	(0.240)		(0.122)	
*Zhongdian*OBOR*	−0.574	−0.548*	−0.289+	−0.287*
	(0.399)	(0.270)	(0.171)	(0.141)
Contrl	Yes	Yes	Yes	Yes
Cons.	−23.85***	−6.851	3.420	18.88
	(5.037)	(14.04)	(5.835)	(17.21)
Obs.	190	190	207	207
R^2	0.845	0.808	0.844	0.823
Number of provinces		15		16

Notes. The values in the brackets are robust standard errors; ***, **, * and + denote significance levels of 1%, 5%, 10% and 15%, respectively.

effects. Columns (3) and (4) are results for provinces with fiscal burdens smaller than the median of the whole sample. We see that after OBOR was initiated, FDI inflows to OBOR provinces with heavy fiscal burdens were significantly negatively affected, while FDI inflows to OBOR provinces with light fiscal burdens were not. Specifically, FDI inflows to the OBOR provinces with high fiscal burdens dropped by 49%.

6.2.4 | Degree of marketisation

Estimation results based on the proportion of state-owned enterprises are shown in Table 8. Columns (1) and (2) are results for provinces where the proportion of state-owned enterprises is larger than the median of the whole sample. Column (2) considers the two-way fixed effects. Columns (3) and (4) are results for provinces where the proportion is less than the median. We see that the impact of OBOR on FDI inflows is significantly negative in both groups. However, it is obvious that in provinces with high proportion of state-owned enterprises, the absolute value of the estimated coefficient of the interaction term is much larger. Thus, FDI inflows of the OBOR provinces with high proportions of state-owned enterprises decreased by 55% after OBOR, while inflows in the OBOR provinces with low proportions of state-owned economy decreased by 29%.

7 | CONCLUSIONS AND POLICY IMPLICATIONS

This paper examines the impact of One Belt & One Road construction on China's foreign capital utilisation. We use data for the years 2003–15 at provincial level and deploy a difference-in-differences strategy to address problems of endogeneity. Taking the interaction term of two dummy variables capturing the two differences as the core explanatory variable, and the utilisation of foreign capital as the explained variable, we draw the following conclusions.

First, on average, after OBOR was initiated, foreign capital utilisation of OBOR provinces was negatively affected compared with non-OBOR provinces. Second, OBOR means more than capital, labour and projects. Its impact on foreign capital utilisation cannot be simply captured by outward direct investment, overseas contracted projects and overseas labour services. Third, the negative impact of OBOR construction on foreign capital utilisation is more pronounced in OBOR provinces with low levels of economic development, heavy fiscal burdens and low degrees of marketisation.

These conclusions have three implications for policy design. First, we should maximise the benefits of OBOR and minimise its costs. OBOR is helpful for deepening economic ties between China and other countries and expanding China's foreign trade and investment space. It is, however, necessary to avoid negative spillovers, one of which may be the adverse impact on utilisation of foreign capital, and it is inadvisable to believe that "going global" and "bringing in" can be unconditionally benign. Second, we should not evaluate the impact of OBOR only by reference to traditional quantitative indicators like capital mobility, labour services and project cooperation. We need to assess its impact on utilisation of foreign capital from a broader perspective and consider resource competition as well as signal delivery. In addition to looking at the explicit indicators, policymakers should also pay attention to the competitive relationship between "going global" and "bringing in" at implicit levels. Third, we should pay particular attention to the negative impact of OBOR on provinces with low development levels, heavy fiscal burdens and high proportions of state-owned enterprises. In these regions, economic development is still at the early stage and foreign investment is badly needed. To avoid the potentially negative impact of OBOR on foreign capital utilisation, the central government needs to give these regions special support to relax resource constraints and ease concerns of foreign investors.

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